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AICPA *Washington Report*

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COMMERCE, DEPARTMENT OF

The Bureau of the Census conducts surveys weekly, monthly and quarterly, which encompass wholesale, retail and service trades. They serve as the factual basis for economic policy decisions and actions of the Federal government and constitute an important component for estimates of the Gross National Product (GNP). The summary statistics developed are published in monthly wholesale, retail and service trade reports which are widely used by businesses and others for marketing research and planning activities. The U.S. Bureau of the Census requests the cooperation of the accounting profession to encourage their clients to file reports on time. Participation in these current business surveys is voluntary and the Bureau appreciates the time and effort spent by business firms in this important work. The excellent cooperation received from the business community over the years has enabled the Bureau to assure the accuracy of the summary measures developed by the survey.

COMMODITY FUTURES TRADING COMMISSION

Plans for a domestic options trading program should be abandoned and Commission resources concentrated on the regulation of the futures industry, according to a report prepared by the General Accounting Office and released last week. The report, "Regulation of Commodity Futures Markets -- What Needs to be Done," is the product of a two-year examination of the Commission and contains recommendations for improvements in such key program areas as contract market designations, rule enforcement review, abusive trading practices, registration, and market surveillance. The GAO concluded that the CFTC "drained its resources seriously" and interfered with its ability to handle its primary responsibilities through its involvement in the sale of so-called London options. The report discusses several other areas of potential or existing trouble, such as the financial disclosure system for employees, procurement policies and procedures, and commission registration and audit programs. Copies of the report are available from the GAO for \$1 each (S/N CED-78-110).

COST ACCOUNTING STANDARDS BOARD

A proposed rule on accounting for insurance costs was published in the 5/15/78 Fed. Reg., pp.20806-13. The proposal provides criteria for the measurement of insurance costs, the assignment of such costs to cost accounting periods and the allocation of insurance costs to cost objectives. It is intended to resolve problems of accounting for insurance premiums, self-insurance provisions, insurance reserves and the allocation of insurance costs among corporate segments. Comments on this republished proposal are due by 6/30/78. For further information, contact Robert Straith at 202/275-6136.

FEDERAL COMMUNICATIONS COMMISSION

Amendments to Part 31, the uniform system of accounts for Class A and Class B telephone companies, have been adopted. These amendments subdivide the telephone plant under construction account into the cost of plant under construction for one year or less with no provision to accrue interest during construction and the cost of plant under construction for over one year to accrue interest during construction at the prime rate.

FEDERAL RESERVE BOARD

Legislation establishing guidelines for protecting the privacy of customers' financial records drew strong criticism from the Securities and Exchange Commission and the Department of Justice at hearings held last week by the Senate Banking Subcommittee on Financial Institutions. SEC Chairman Williams charged that the bill (S.2096), known as the Right to Financial Privacy Act, would "frustrate our ability to investigate and even to detect abuses that siphon off millions of dollars of investment interest at the expense of the public investor." S.2096 would protect the individual's right to privacy by requiring notification when a federal agency seeks access to a bank customer's financial records, and by granting the customer an opportunity to prevent the release of such records by filing a written objection. According to Chairman Williams, this provision would assure denial of access "on an almost automatic basis," which would force federal agencies to litigate many of the subpoenas issued and make timely access to records impossible. Williams also objected to the bill on the grounds that it would extend protection of financial records to corporations as well as individuals. The SEC's position concerning unnecessary delay in access to financial records was reemphasized by Deputy Attorney General Civiletti. The Justice Department spokesman expressed apprehension that the legislation would impede criminal investigations and suggested that individuals be required to file a motion in court to challenge a government subpoena, in order to discourage "frivolous interference with wholly legitimate investigations."

The Treasury Department's version of Title I of the Safe Banking Act (HR 9600) was approved by the House Banking Subcommittee on Financial Institutions last week. A controversial portion of the bill, Title I includes restrictions on insider borrowing and increased enforcement authority for the federal bank regulators. The modified version of the legislation also applies insider restrictions to all banks -- national and state, reduces from two thirds to a simple majority of a bank board the required approval vote for loans over \$25,000 to insiders, and provides that in towns of 30,000 or fewer residents, the restrictions on loans to shareholders will apply to 18% stockholders as opposed to the 10% figure for larger cities.

A uniform interagency system for rating the condition and soundness of commercial banks has been adopted by the federal bank regulatory agencies. The Uniform Interagency Bank Rating System has two elements: an assessment by federal bank examiners of five critical aspects of a bank's operations and conditions, and a combination of these factors into a composite rating of a bank's condition. Under this system banks will be placed in one of five groups, ranging from the most sound to those that are excessively weak. The new system is expected to provide a basis for comparable judgment by supervisors about all federally insured banks.

GENERAL SERVICES ADMINISTRATION

Temporary federal procurement regulations implementing changes made by the Cost Accounting Standards Board on national defense contracts of civilian executive agencies were published in the 5/16/78 Fed. Reg., pp.21038-49. The regulations, which are effective retroactively on 3/10/78 and will expire on 3/10/79, implement changes in the definition of cost accounting practices and modify previous temporary regulations on negotiated non-defense contracts.

HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF

An "Audit Guide for Auditing Development Costs of HUD Insured Multifamily Projects for Use by Independent Public Accountants" has been issued. The guide was developed by the HUD office of Inspector General to assist accountants in understanding the special requirements related to projects constructed or rehabilitated under multifamily mortgage insurance programs. The guide includes sections dealing with audit scope and coverage, audit standards, eligibility of costs and compliance regulations, and reporting requirements. Copies of the guide will be available from HUD field offices (S/N IG 4200.IA).

PRIVACY COMMISSION

Hearings on an "Omnibus Right to Privacy" bill have been scheduled by the Government Information and Individual Rights Subcommittee of the House Committee on Government Operations. The hearings begin 5/23 and will include witnesses from the Commerce Department where a task force has been at work on a uniform position on privacy matters. The Justice Department will testify on the issue of financial privacy and safeguards on governmental access to an individual's bank and privately-held records. The following day, HEW will discuss confidentiality safeguards of medical records. Also testifying that day will be David Linowes, CPA, former chairman of the Privacy Protection Study Commission.

Congressman Preyer (D-N.Carolina), Chairman of the Subcommittee, has introduced HR 10076, a major proposal that will affect individual privacy rights throughout the private sector.

SECURITIES AND EXCHANGE COMMISSION

The SEC is considering the institution of rulemaking procedures to amend the Uniform System of Accounts for Mutual and Subsidiary Service Companies. The proposed amendment is designed to provide revenue and expense information needed for regulatory purposes and to provide accounts analyzing service company income, including allowable rate of return for use of capital. It would follow, with appropriate modifications, selected accounts of the Federal Energy Regulatory Commission's Uniform System of Accounts. The proposal would also amend Rule 93 to require service companies to keep their accounts and records in accordance with the proposed amended Uniform System of Accounts. For more information call 202/523-5677.

TREASURY, DEPARTMENT OF

The AICPA Federal Tax Division testified last Friday before the Ways and Means Subcommittee on Miscellaneous Revenue Measures in support of HR 12578, a bill to make various corrections to the Internal Revenue Code. Two of the provisions contained in HR 12578 were based on specific recommendations offered by the Division. The first of these recommendations deals with an amendment to Subsection 563(b), and the second is a recommendation to broaden the availability of Code Section 6166 allowing for an extension of time for the payment of estate taxes.

Anyone wishing to receive one free copy of the AICPA's testimony may do so by contacting our Washington office prior to 5/31/78 and requesting Document 13-1. Telephone requests are encouraged and should be directed to extension 47.

A bill that assures that a self-employed individual is credited only for those payments to his social security account for which he has paid the tax has been introduced by Rep. Gibbons (D-Fla), a member of the Ways and Means Committee. Mr. Gibbons noted that some self-employed individuals are receiving credit toward social security benefits even though such persons may not have paid the applicable self-employment social security tax. The law is silent on whether a person should receive benefit credit if he has not paid his social security taxes, and this bill would correct this situation.

The final rules relating to the release of private letter rulings issued before 11/1/76 have been published in the 5/15/78 Fed. Reg., pp.20790-93. The regulations, which are effective as of 5/3/78, do not include a provision to release background documents along with the private rulings.

"Investment Tax Credit: Unresolved Issues" is the title of a recent GAO report based on the review of studies of the investment tax credit and how changes in its application could influence long term goals of economic growth and capital formation, rather than short term economic stability. The GAO study found that a large portion of the tax credit goes "to reward investments that would have been made whether or not there was a tax credit." The study also said the credit may distort normal market forces by leading to more intensive use of capital at the expense of labor, causing smaller rates of return for assets with longer service lines, and placing new or marginal businesses at a competitive disadvantage. To improve its effectiveness in achieving long-term goals, GAO recommended that Congress consider applying the investment tax credit to structures -- as proposed by the Administration -- and workforce training. The report suggested that Congress may wish to consider other forms of investment as well. As a final recommendation, GAO urged further research and analysis of the investment tax credit's effectiveness as an economic stabilization device. Copies of the report (PAD-78-40) may be purchased for \$1 each from the GAO.

Final regulations on procedures for the abatement of the civil penalty for failure to file an information return on the organization or reorganization of foreign corporations and acquisitions of their stock appear in the 5/1/78 Fed. Reg., p.18552. The rules are intended to make the procedure more efficient and affect all persons who file the return. The regulations are effective on 5/1/78.

WHITE HOUSE

The Federal statistical system has become the subject of a reorganizational staff study. Essentially, an effort will be directed toward defining the collection points, the types of data, and their intended uses. Assistance from the private sector will be solicited. Many CPA firms are directly involved in the compilation and reporting of such information for their clients and many will be vitally interested in this project. As soon as the details of the project are made available we will announce them in the Washington Report.

A detailed assessment of the first year results of zero-based budgeting (ZBB) in the Federal government has been released by the White House. The report notes that departments and agencies "got off to a good start" in putting the process to work. ZBB provides a systematic process by which managers at

various levels can analyze performance and allocate resources effectively among government programs. According to OMB director James McIntyre Jr., under ZBB agency budget priorities were explicitly identified and stated; agencies were better able to restrain the size of budget requests, and management participation in the budget process increased at all levels. Major changes to improve the 1980 process will concentrate on eliminating unnecessary paperwork and broadening the involvement of agency managers.

SPECIAL: CONGRESSMAN JOHN E. MOSS TO ADDRESS GOVERNMENT ACCOUNTANTS

Congressman John E. Moss, Chairman of the House Subcommittee on Oversight and Investigations, will be the keynote speaker at the Association of Government Accountants' 27th annual national symposium being held in San Francisco June 26-28. The symposium will present an outstanding technical program which will be of interest to CPAs. There will be some 39 workshops which will cover auditing, accounting and financial management issues. For more information call 703/684-6931.

For further information contact:
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202/872-8190

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